

RatingsDirect®

Summary:

Torrance, California; Note

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Table Of Contents

Rationale

Summary:

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Credit Profile

US\$30.0 mil 2013-14 TRAns due 07/02/2014

Short Term Rating

SP-1+

New

Torrance 2013-14 TRAns due 07/02/2014

Short Term Rating

SP-1+

Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'SP-1+' rating to Torrance, Calif.'s series 2012 tax revenue anticipation notes (TRANs).

The rating reflects our opinion of the city's:

- Strong underlying credit characteristics,
- Good coverage of set-asides and debt service by projected general fund balances, and

Significant alternate liquidity available in the event of a general fund cash deficiency at note maturity.

Unrestricted taxes, income, revenue, cash, and other money received for, or allocable to, the general fund in fiscal 2014 secure the TRANs. We understand Torrance officials intend to use TRAN proceeds to fund seasonal cash flow deficits during the fiscal year. The notes mature on July 2, 2014.

Torrance is projecting net available general fund cash balances to provide, what we consider, a good 1.4x debt service coverage (DSC) of the total repayment amount at the TRANs' maturity when including reserves designated for economic uncertainty. The city notes that it has additional reserve designations including program contingency and special project. These designated reserves are available through a city council vote, and can bring ending coverage up to 2.14x. In addition, city management expects to have access to an estimated \$56-73 million of other borrowable funds, depending on the month, in the event of a cash deficiency in the general fund at the set-aside dates or note maturity.

Alternate liquidity would increase projected DSC at the TRANs' maturity to 4.5x. We understand the resolution requires pledged revenue to be segregated in a separate note repayment account. This is specified in the note as amounts sufficient to pay 50% of note principal in January 2014 and the remaining 50% of principal in May 2014, as well as 100% interest in June 2014. In our view, projected DSC at the set-aside dates is a good 1.8x in January and May 2013. City projections have interest coverage at well in excess of 2x.

The 21-square-mile town of Torrance is in western Los Angeles County, where it provides a range of services, including police and fire protection, library, sanitation and water, airport and bus transit, street and infrastructure construction and maintenance, recreational activities, and cultural events. The population has increased steadily over

the past few years to approximately 145,000. As part of the greater Los Angeles metropolitan statistical area, Torrance benefits from a diverse economy that continues to generate diversified revenue streams. Median household and per capita effective buying incomes are, in our opinion, an above-average 134% and 132%, respectively, of national levels.

Management is projecting an increase in property and sales tax revenues for fiscal 2014. Property and sales tax for 2014 is estimated to grow by 4% and 6% respectively compared with 2013 estimates. Cash flow DSC of 1.4x includes the use of restricted reserves for economic uncertainty, which are held in the general fund. According to management, it would only need the city council's approval to access these funds. Cash flow coverage numbers for 2013 are coming in close to previous projections.

Torrance has consistently maintained, what we consider, strong fund balances. For fiscal 2013, management is projecting to end the year with a slight surplus. Audited fiscal 2012 results show a \$50.5 million ending available general fund balance, or, what we consider, a very strong 35% of expenditures. The city has historically maintained similarly strong finances.

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